

# Ohio University's Budget Crisis

## Analysis and Proposals

Ohio University Chapter of the American Association of University Professors (OU-AAUP)

Fall 2019-2020

## Introduction

Ohio University (O.U.) is facing a significant budget crisis. Current budget projections predict a shortfall of approximately \$20 million in the immediate term with continuing deficits in the years ahead.<sup>1</sup> The University's administrators have offered a number of explanations for this situation, pointing especially to a declining number of college-bound 18 year-olds, which has driven a drop in enrollment.<sup>2</sup> Long-term trends suggest, however, that decisions to dramatically increase spending on administrative expenses in approximately the last eight years are the primary contributor to the University's budget problems. These decisions have had two effects. First, the substantially increased spending on administration has reached unsustainable levels, outstripping revenue. Second, this large rise in administrative spending has led to a decline in OU's attractiveness compared to its other university competitors in Ohio, resulting in the recent drop in enrollment and tuition revenue generated by enrollment. This report analyzes these trends and points to important explanations we believe are not receiving adequate attention. We hope our findings will spark debate about how budget decisions have been made at O.U., how those decisions have led to our present crisis, and how we can turn things around to protect the University's core research and teaching mission.

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<sup>1</sup> See Connor Morris, "OU academic colleges asked to cut \$19.3M from budgets," *Athens News* (May 5, 2019): [https://www.athensnews.com/news/local/ou-academic-colleges-asked-to-cut-m-from-budgets/article\\_74a27194-6f60-11e9-a544-4f00d681b5a4.html](https://www.athensnews.com/news/local/ou-academic-colleges-asked-to-cut-m-from-budgets/article_74a27194-6f60-11e9-a544-4f00d681b5a4.html). See also Ohio University Budget Book: <https://www.ohio.edu/sites/default/files/sites/finance/budget/files/FY20%20Budget%20Book%20Final.pdf>.

<sup>2</sup> See OHIO's Faculty Senate sponsored "Money Matters, an informative discussion" to share more about the university's budget," at <https://www.ohio.edu/news/2019/10/ohios-faculty-senate-sponsored-money-matters-informative-discussion-share-more-about> and Ohio University Budget Book at <https://www.ohio.edu/sites/default/files/sites/finance/budget/files/FY20%20Budget%20Book%20Final.pdf>.

## Data and Methods

Our data derive from publicly available listings of O.U. faculty and administrator salaries, O.U. budget information, and U.S Government agency reports. Our analyses of demographic changes, salary averages, and other expenditures focus on long-term trends, in some cases dating as far back as the 1970s. This focus reflects our hunch that the current budgetary crisis is the result of past spending decisions whose consequences have been cumulative. Because data sets are often flawed, the data we draw on likely also exhibit imperfections. Whatever glitches our data might possess, however, likely would not affect our overall conclusions. The tendencies we identify indicate substantial stagnation or dramatic change over time. Any imperfections in the raw data likely modify these trend lines only slightly.

## Overview of Findings

We present our findings further below as responses to a series of questions. We ask first whether the budget crisis is really the consequence of a sharp decline in the number of college-bound seniors. We find that the shrinking of the pool of college-bound seniors is a fact but one that O.U. can easily handle through gradual, natural attrition (e.g. retirements and resignations) during the next seven years. There is no imminent “demographic cliff,” and demography cannot account for our immediate budget crisis.

We ask next whether faculty salaries can explain the financial shortfall. Salary and benefits for all employees account for the University’s greatest expenditure of revenue (64.6 percent).<sup>3</sup> We find, however, that faculty salaries have not increased appreciably in real dollar amounts since the 1970s despite the sharp increases in tuition and fees during this same period. Moreover, the number of faculty per student has not increased. Classified employee ranks have also remained stable or declined relative to students. By contrast, since 2010, the number of regular administrators per student has shot up by 45 percent, an increase from around 800 to currently more than 1,190. Could this sharply increased spending on administration account for the budget gap and Ohio’s loss of competitiveness?

Finally, we examine spending on Athletics, a long-standing concern of the faculty. Athletics typically runs an annual deficit in the range of \$20 million. O.U. covers this shortfall through subsidies from the general fund (tuition and fees). We suggest that this spending contributes substantially to O.U.’s budget deficit.<sup>4</sup>

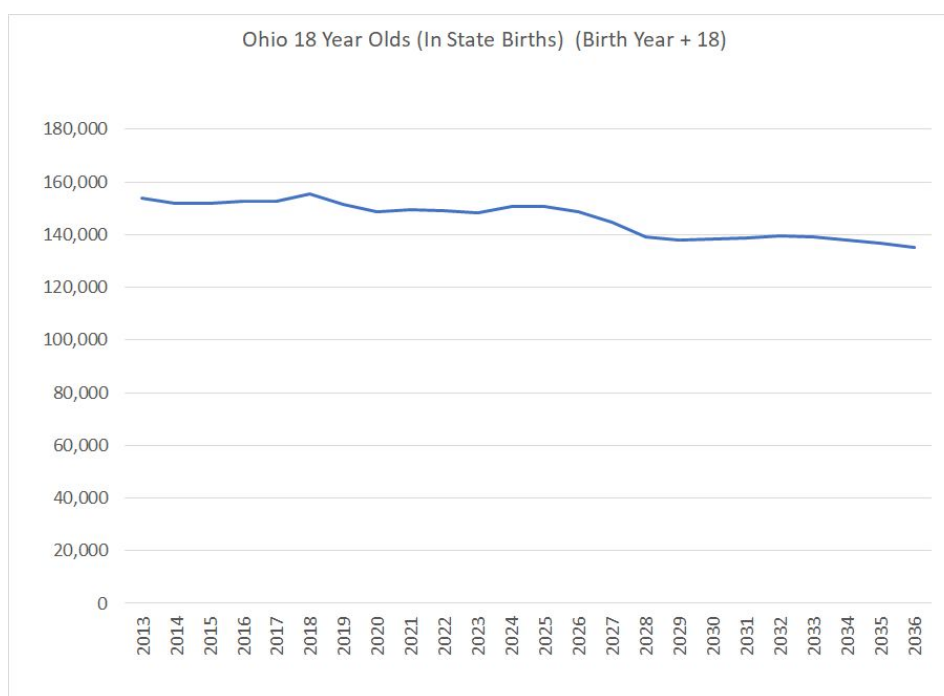
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<sup>3</sup> See Ohio University FY-20 Budget Book, p. 19:  
<https://www.ohio.edu/sites/default/files/sites/finance/budget/files/FY20%20Budget%20Book%20Final.pdf>

<sup>4</sup> Mispricing is also a likely contributing factor to O.U.’s budget crisis. We anticipate addressing this problem in a separate analysis at a later time.

## Is Demography Really the Problem?

In the “Money Matters” forum of Wednesday, October 15, presenters claimed that OHIO is facing a significant decline in enrollment due to a sharp decline in the number of college-bound high school seniors.<sup>5</sup> This trend appears to extend beyond Ohio, affecting colleges and universities, nationally.<sup>6</sup> A close look at the demographic data from the Centers for Disease Control (C.D.C.), however, suggests that although there is some cause for concern, there are also important nuances. We present data from two perspectives. The first graph below plots Ohio births from 18 years early, i.e. 18-year olds in Ohio by year. The graph reveals a very gradual downward trend in 18-year olds, and only a drop of any significance after about 2026.<sup>7</sup>



As the above graph reveals, the next decade and a half will see a decrease in births of about 10 percent in the state. OHIO’s faculty will likely need to shrink, correspondingly, i.e. become 10

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<sup>5</sup> See

<https://www.ohio.edu/news/2019/10/ohios-faculty-senate-sponsored-money-matters-informative-discussion-share-more-about>.

<sup>6</sup> Justin Fox, “The Coming College Enrollment Bust,” *Bloomberg* (May 30, 2019)

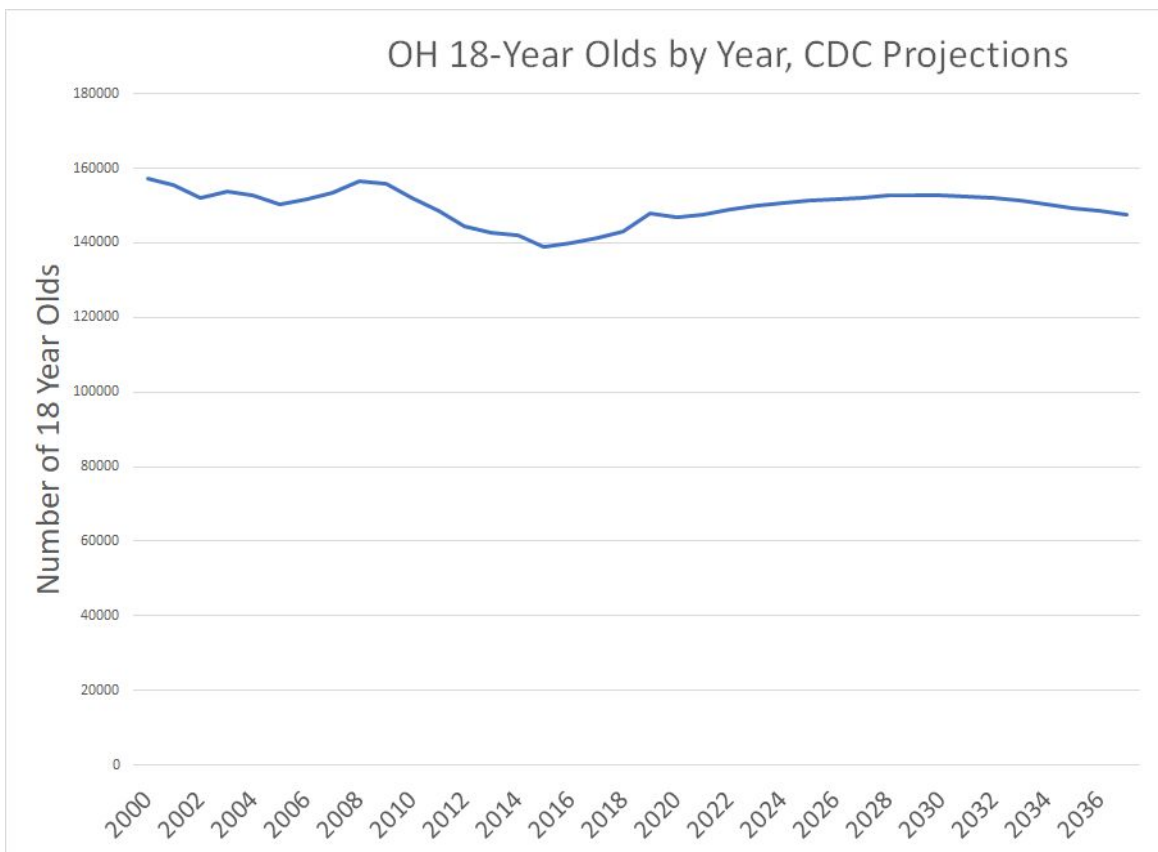
<https://www.bloomberg.com/opinion/articles/2019-05-30/college-enrollment-bust-is-headed-this-way-by-2026>.

<sup>7</sup> The decline in births coincides with the onset of the Great Recession. The birth data we refer to is from the C.D.C. Wonder database. The drop in 2026 accords with the projected national trends. See Fox, “The Coming College Enrollment Bust,”

<https://www.bloomberg.com/opinion/articles/2019-05-30/college-enrollment-bust-is-headed-this-way-by-2026>.

percent smaller. The University can easily absorb this reduction through normal attrition during the next seven years, assuming a loss of two to two and a half percent of the faculty per year due to retirements and resignations. This process of contraction will need to address strategic hiring and replacement needs at the departmental and college levels; but the main takeaway here remains the same: we can absorb the necessity to reduce the size of the faculty because of a decline in 18-year olds through a very gradual process that does not require layoffs, especially of instructional faculty, who generate a substantial share of our full-tuition equivalent (FTE) revenue.

We emphasize that the graph above based on Ohio births is a worst case scenario for the next 10-15 years, a 10 percent decline. The C.D.C., in addition to birth data, also has projections of 18-year olds by state. This projection data on the number of 18-year olds starts with births and then is adjusted based on movements of people and families in and out of Ohio.



The projection data, in contrast with the birth data, suggests that O.U. has already weathered most of the expected decline in the 18-year old demographic cohort.<sup>8</sup> They suggest that O.U.

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<sup>8</sup> The projection data is from the C.D.C. Wonder database.

has no future demographic problem.<sup>9</sup> Between the two, the first graph (above) may possibly be more indicative of the future pool of students, but we cannot completely discount the relevance of the C.D.C. projections in the second graph. It might make sense to plan for the worst case, based on Ohio births data (first graph), and hope for the better outcome, as described in the projections (second graph). In any event, the worst case is relatively mild: O.U. would need to shrink by 10 percent over the course of seven years--a process we can manage, gradually.<sup>10</sup>

What the demographic data clearly show is that the number of college-bound seniors is changing slowly and mildly, and if O.U. is in a current budget crisis of the severity that is being suggested, demographics cannot be the cause. This is true because data on the number of 18-year-olds is known fairly accurately 18 years in advance of any demographic impact on the University. Because of this advance notice, budget makers would have known about these trends and would have accounted for them. It would be inexplicable if they had failed to plan accordingly for something so clearly telegraphed in advance.

## What Else Might Explain O.U.'s Predicament?

### Is spending on faculty salaries the problem?

Understandably, in a period of severe budgetary crisis, there is pressure to reduce staffing--faculty, especially--to cut expenses. But is spending on faculty salaries a cause of O.U.'s current financial difficulties? An analysis of faculty salary trends since the 1970s suggests, to the contrary, that spending on salaries has remained nearly flat over the long term and has actually declined during the past two years.<sup>11</sup> The graph below shows that even as inflation-adjusted in-state tuition has increased substantially, average faculty salaries adjusted for inflation at all ranks have remained level or decreased.<sup>12</sup>

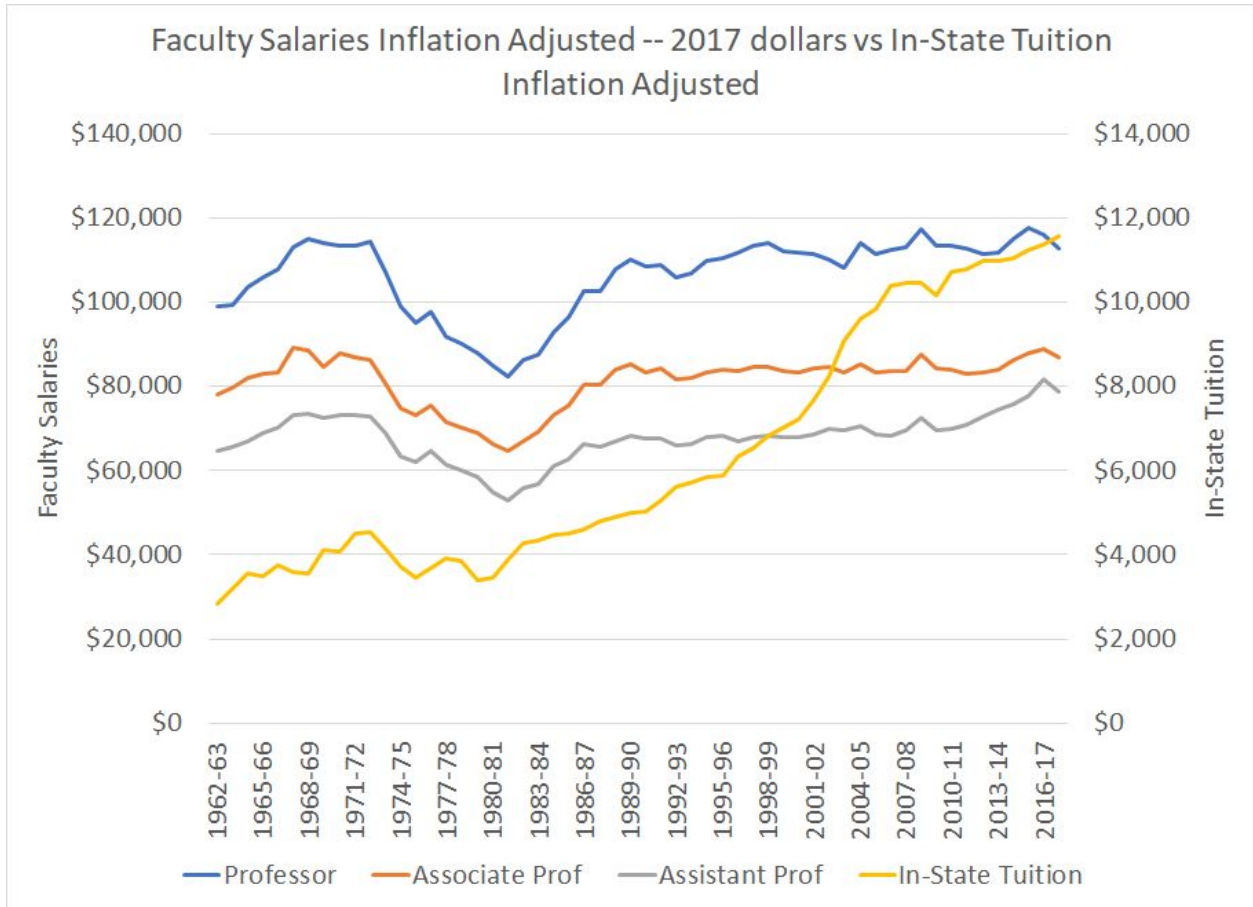
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<sup>9</sup> Ohio Development Services Agency projections on Ohio demographics is consistent with the C.D.C. projections for Ohio.

<sup>10</sup> Future high school graduation levels could potentially differ somewhat further from both sets of the demographic data presented due to the impact of drop-out rates.

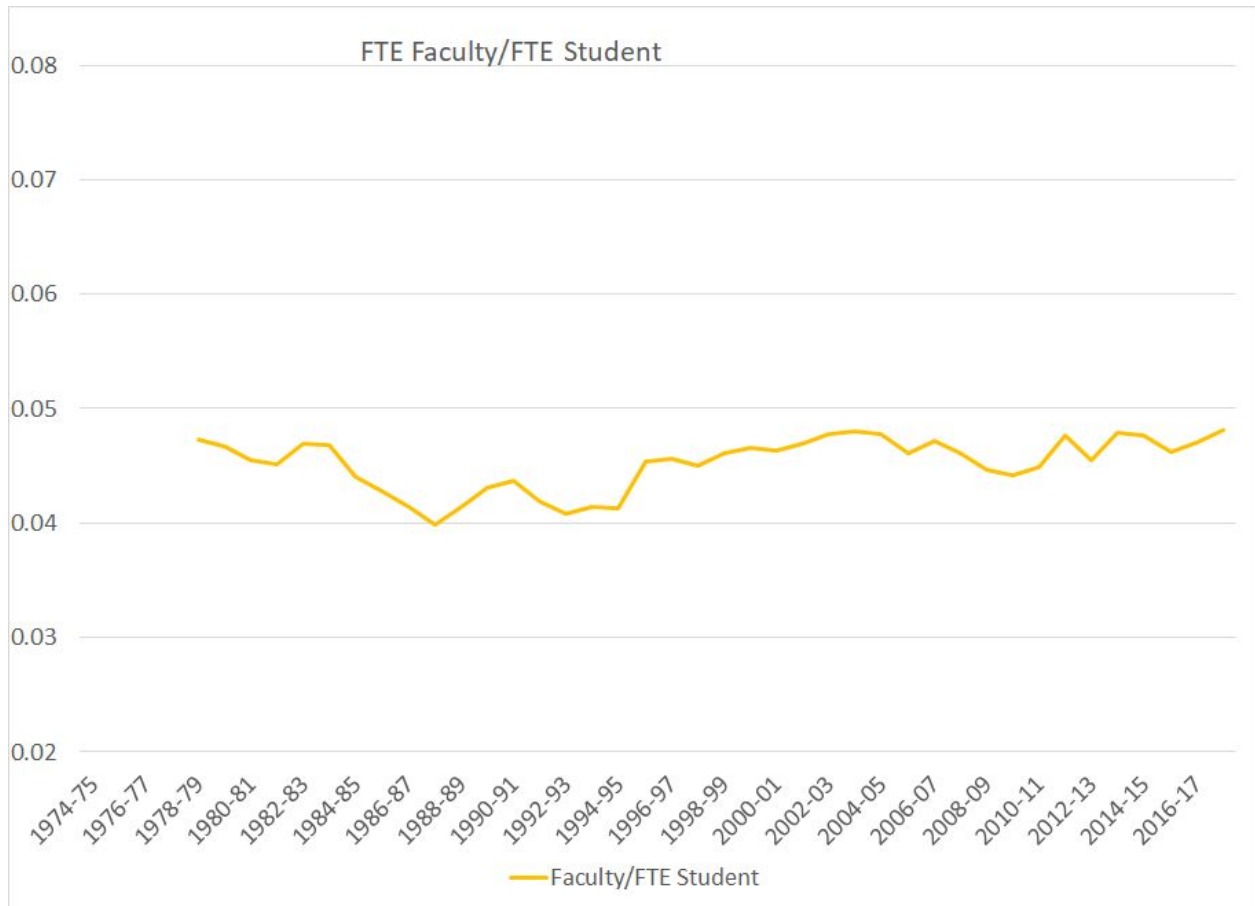
<sup>11</sup> Ohio University's Institutional Research data reflect this lack of consistent investment in faculty salaries and compensation. In relation to institutional peers, nationally, and to other public universities in the state, the salaries and compensation of Ohio University faculty at the different levels of full, associate, and assistant professor remain in the bottom half or bottom third. OU's recent percentage increases to faculty salaries also rank near the bottom in relation to other public universities in the state. For these data through 2017-2018, see <https://www.ohio.edu/institres/faculty/OUSalaryStudy.pdf>. This Institutional Research report includes data that appear to show that OU is also below average when comparing salaries by rank versus Ohio public universities.

<sup>12</sup> Data from O.U. Institutional Research. Inflation adjustment based on the CPI-U from the Bureau of Labor Statistics.



Faculty hiring has also remained flat relative to the number of faculty per student. The graph below illustrates this trend, showing a constant faculty-to-student ratio.<sup>13</sup> There has not been any general expansion of the faculty relative to students taught. The conclusion to draw from these two factors—no increase in faculty wages in inflation-adjusted terms and no increase in the number of faculty per student—is that O.U. spending on direct education in inflation-adjusted terms has not changed substantially on a per student basis since the late 1970s despite a sharp increase in tuition and fees during this same period.

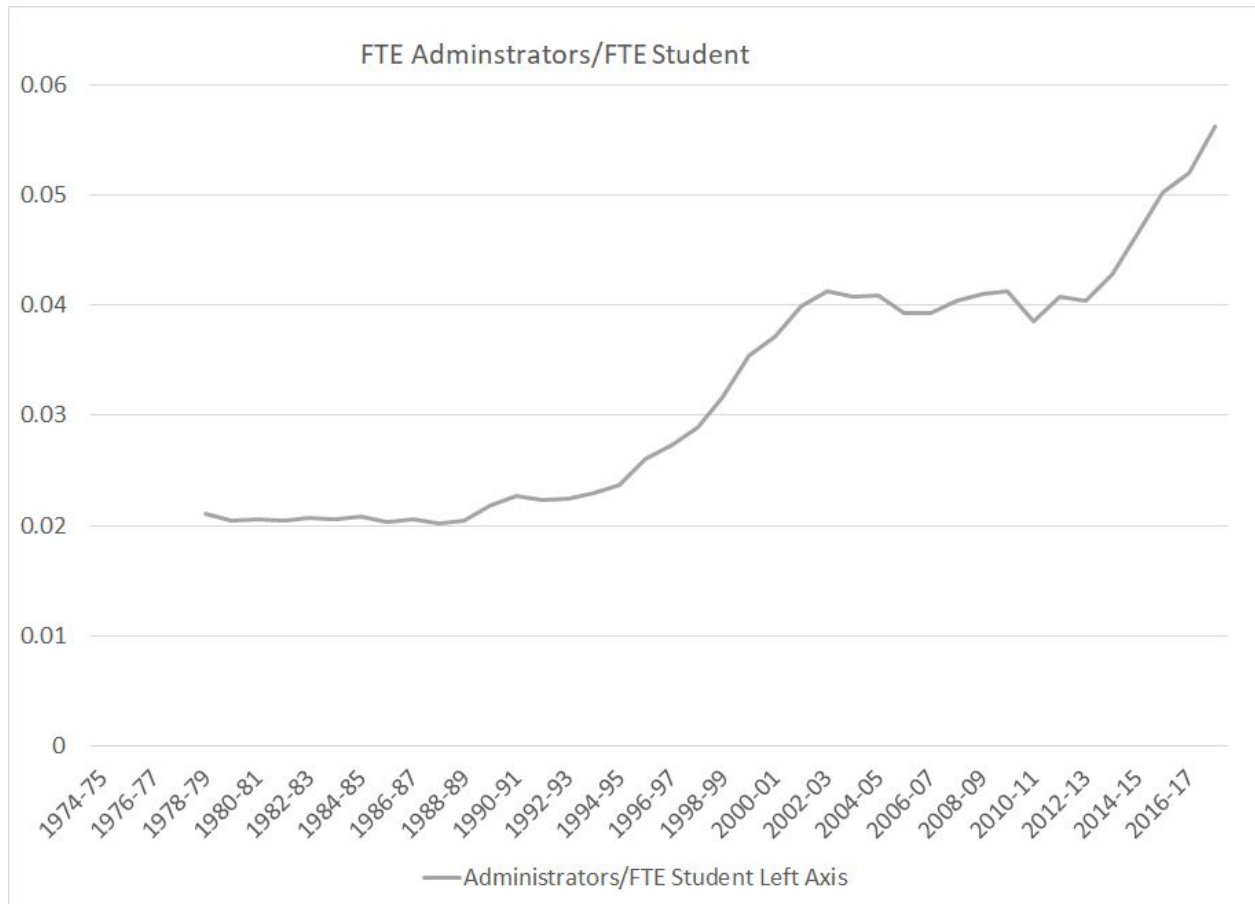
<sup>13</sup> Data from O.U. Institutional Research.



### What about growth in administrator ranks?

If spending on faculty salaries and the number of FTE faculty per student have remained constant over time despite significant increases in inflation-adjusted tuition and fees, what else might account for O.U.'s increased spending and its budget shortfall? The exponential growth in non-classified administrator ranks is one very real possibility. O.U. has seen a dramatic increase in the administration during the past 25 years. The graph below shows the spike in FTE administrators per FTE student and compares it with the stasis in the number of FTE faculty for every FTE student as shown in the graph above.<sup>14</sup> In addition to earlier large increases, the years since roughly 2010 have seen a 45 percent increase in FTE administrators per FTE student.

<sup>14</sup> Data from O.U. Institutional Research.



The primary takeaway is that, since 1979, O.U. has made no major new investments in the direct teaching mission on a per student basis even though inflation-adjusted tuition and revenue at the University have raced upward during the same period. The sharp increase in administrators indicates much of the increases in revenue per-student has quite possibly gone toward the administrative structure rather than O.U.’s mission of teaching and research.

In short, this is a story of how administration started eating the University.

Note, that over this same time period there has been a drop in FTE classified staff (hourly employees—e.g. clerical staff, maintenance staff, technicians) per FTE student. So the relative shift in resources has been away from both faculty and classified staff toward regular administrators.<sup>15</sup>

### Why Is O.U. in a Budget Crisis?

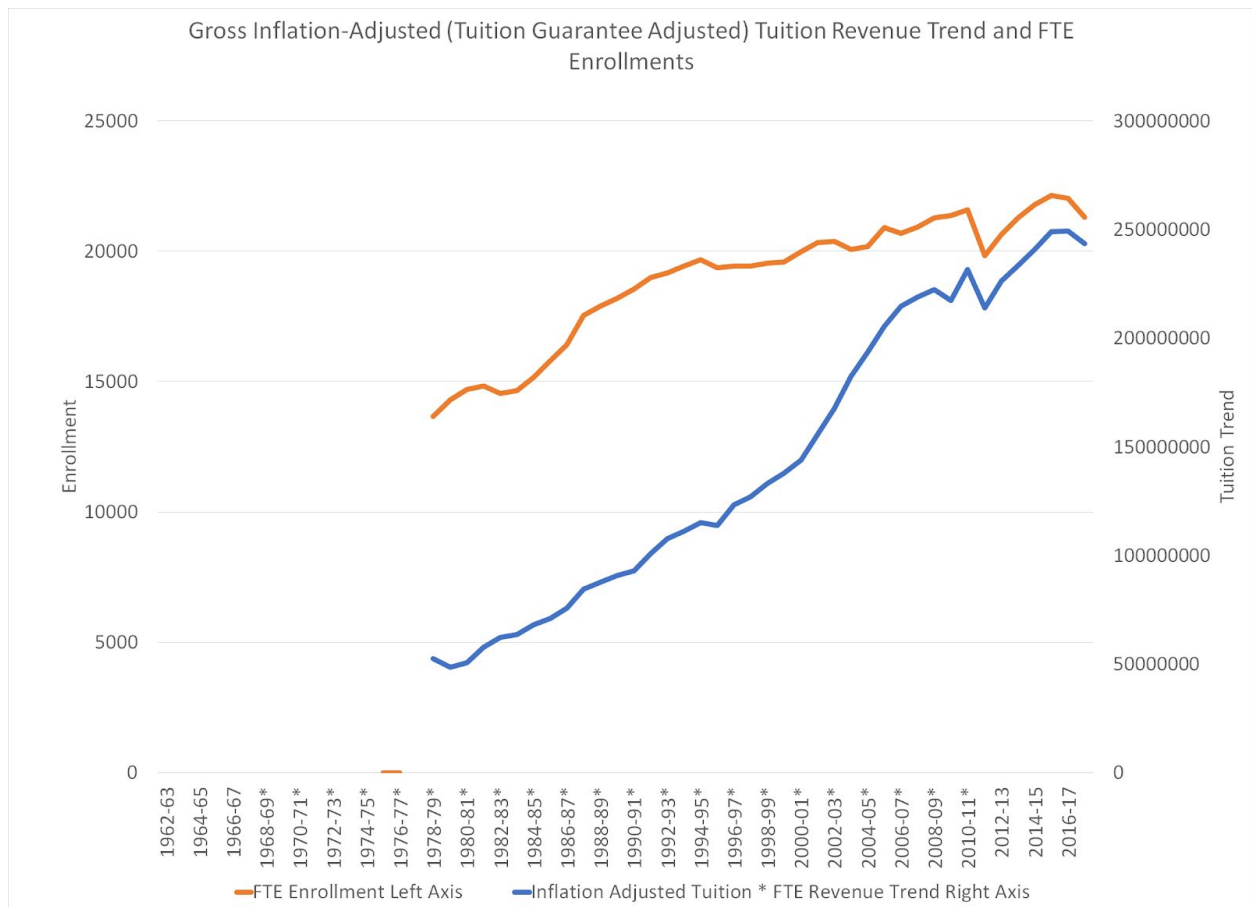
Why is O.U. in a budget crisis at all? As the graph below shows, compared to 2010, the University previously experienced a rise in enrollment and a dramatic increase in

<sup>15</sup> This conclusion is based on data from OU Institutional Research. The number of classified staff per FTE student has declined 24.8percent since 1981.



inflation-adjusted tuition and tuition revenue.<sup>16</sup> Only relatively recently has O.U. had an enrollment setback and a consequent decline in tuition revenue.

Compared to 2012, O.U. tuition revenue for 2018 increased by approximately 15 percent (below graph). However, when looking at a shorter time period, say, since 2017, the tuition revenue trend appears to exhibit a decline of two percent. In other words, in 2017 tuition revenue was up 17 percent compared to 2012; but in 2018 it was up only 15 percent compared to 2012.<sup>17</sup> Even though the enrollment decline has continued into 2019, gross tuition revenue overall is still up since 2012.



Given that revenue is up over the medium term (i.e. since 2012), the explanation for O.U.’s current budget crisis lies in decisions to spend the rise in revenue. If this indeed occurred, the

<sup>16</sup> Data from O.U. Institutional Research. Inflation adjustment based on CPI-U from the Bureau of Labor Statistics.

<sup>17</sup> Moreover, because of OHIO’s pricing problems, this recent decline in tuition revenue may get much worse in the short term. There will likely be in the next few years some severe revenue challenges. OHIO seems to have made administrative spending mistakes and cost-of-attendance pricing errors that have imposed a crisis on OHIO that will not disappear overnight. The question of pricing requires a separate, detailed analysis that we cannot provide here.

operating assumption behind these decisions must have been that the dramatic upward trend in revenue would continue or at least remain stable and therefore the University could afford to spend the money it had taken in since 2012. Aside from the question of whether such an assumption was warranted, we have to ask how and where the money was spent and how this spending might have led to our present situation.

To review: Inflation-adjusted tuition revenue on a per student basis over the long term has been rising. Moreover, the number of faculty and classified staff on a per student basis and faculty salaries have remained stable or declined in inflation-adjusted terms. Given these facts, even with the current decline in students, tuition revenue should be sufficient to fund faculty and classified staff at around current levels or with some modest cuts through attrition. If the University only had to deal with spending on faculty and classified workers in relation to revenue, we would be facing a budget challenge, not a budget crisis. Spending on faculty and classified employees has not significantly contributed to the shift of the O.U. budget into negative territory. Any spending exceeding revenue is occurring in areas other than faculty and classified staff.

This leads to the question of how and in what areas has spending increased after 2010? What spending decisions have driven the push to raise the tuition-adjusted cost of attendance? Is the spending problem coming from a gigantic expansion of the administration? As noted above, the number of administrators has risen in the range of 45 percent, a figure amounting to more than 350 new administrative positions since 2010, a startling increase.<sup>18</sup>

The issue of a dramatic expansion in administrative ranks per student raises challenging questions. Was there ever going to be the tuition revenue available to afford the 45 percent increase in administrators since 2010? And with the setback in enrollment, is this increase even less affordable than it might have been otherwise? Further questions include: Does a 45 percent increase in administrators make OHIO more attractive to students who are considering coming to OHIO rather than to its competitors? In other words, does this increase in administrators per student make strategic sense? Was the increase in administrators per student a strategy at all, or did it come about by accident? Does this increase in administrators per student make sense in terms of maximizing learning and knowledge production at the University, which is the key social benefit of all universities? Is such a sharp expansion in administration how the State of Ohio wants state universities to be spending their money? Is such an expansion how students and parents want their tuition being spent? Would a significant roll back in that increase resolve much of O.U.'s budget problems?

There are also some important unanswered questions beyond the number of administrators per student and its dramatic rise. What has been the trend of administrator salaries? What is the trend of the salaries of top administrators? If these salaries have been rising faster than

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<sup>18</sup> Some small portion of this rise in administrators per student seems to be due to some previous faculty positions reclassified into administrator position.

inflation, then this would be a further squeeze on resources out of other parts of the University on top of the squeeze due to the increase in the number of administrators. Would it be wise, as first steps, to trim the salaries of the highest paid administrators and freeze any additional administrative hiring before laying off faculty, especially instructional faculty, who provide teaching that is so valuable to students?

A shift-share analysis of the budget, comparing current budget spending to past budget spending, say in 1990, 2004, and 2009, would be useful in identifying why spending is higher than revenue at this moment in time, even though tuition in inflation-adjusted terms is up substantially, and why increased revenue over the decades has not gone into direct learning.

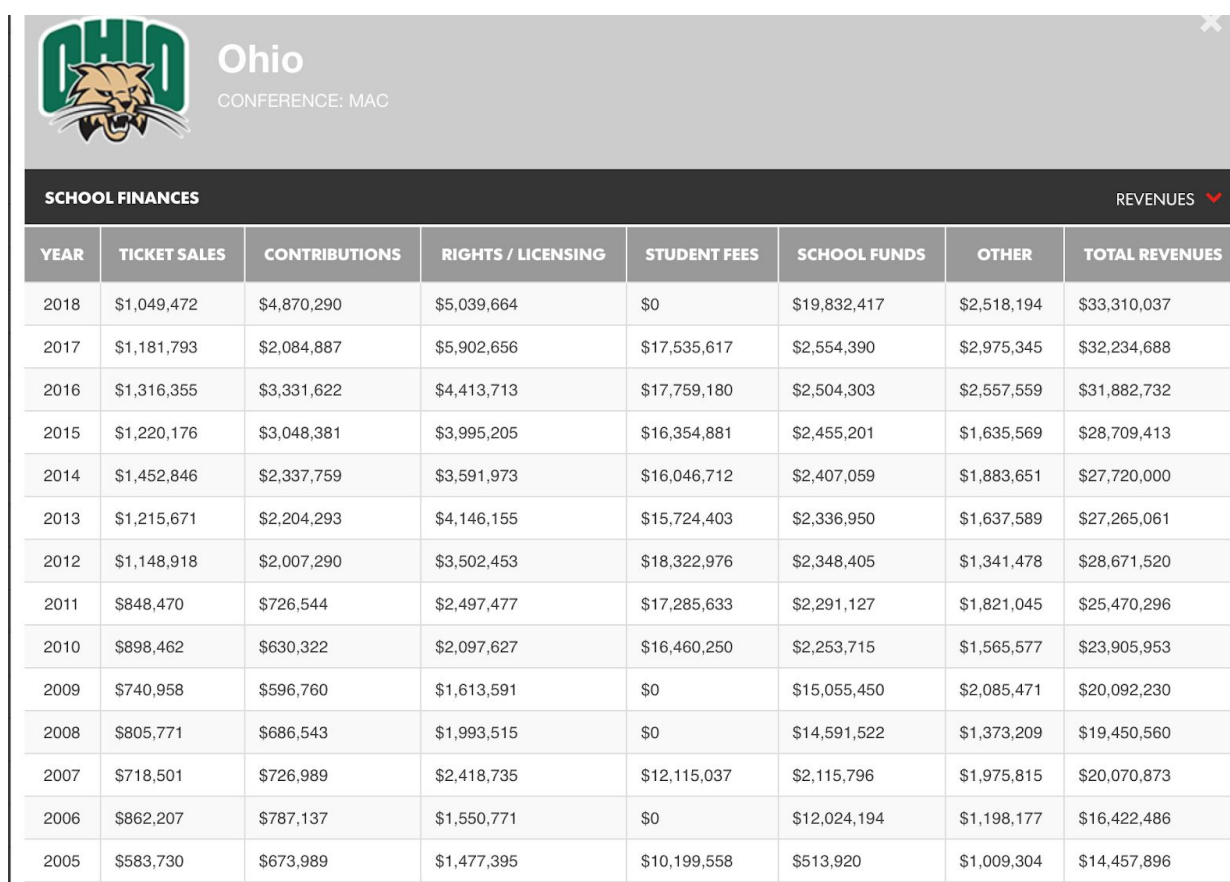
In response to the present enrollment and tuition revenue crisis, if OHIO were to reprice itself in an intelligent and strategic fashion it would do better in the medium term against its competitors and some revenue would return. If OHIO were to do this, the University would be able to generate enough revenue to pay for the education part of the University in close to its current form. This would be possible because spending on direct teaching on a per student basis has not gone up much since the late 1970s, as shown above, and inflation-adjusted tuition over the same time period has dramatically increased. Ohio students today are currently paying this high, inflation-adjusted tuition, and the share of that tuition that needs to go to direct teaching today is much smaller than it was in the late 1970s. For this reason, we can protect the education and teaching mission—the primary rationale of the University and the main good, presumably, that students, families, and Ohio taxpayers are funding—for the benefit of our students and the social and economic prosperity of the State of Ohio.

Conversely, the revenue to pay for the large recent increases in administrative spending does not exist. In fact, the large recent increases in administrative spending was never a sustainably fundable strategy. It was never a sustainable strategy because raising administrative spending to such a large degree as OHIO has done requires raising the cost of attendance price, which, with a delay, results in lower revenue as one potentially prices oneself out of the market.

To respond to the current urgent crisis, OHIO's administration requires radical reimagining. The administration will have to be smaller, leaner, and much more efficient relative to cost. In terms of numbers and spending on a per administrator basis, the administration probably needs to shrink to the levels that existed in 2009 or 2010, adjusted for inflation and the change in the number of students, to be efficient and appropriate in size. There may need to be some shifts between functions where necessary compared to 2009-10; but these adjustments will need to occur within the constraints of a personnel budget and a budget for spending on administration based on 2009 or 2010. An efficient administrative budget structured in these terms would allow OHIO to price itself effectively.

## Does Athletics spending explain our problems?

Finally, we must consider the impact of the annual deficit that the Athletics program runs. O.U. Athletics expenditures outpace its revenues by close to \$20 million, annually. This deficit is met through appropriations from the University's general fund (tuition and fees). In 2018-2019, this amount totaled \$19,832,417.00 (<https://sports.usatoday.com/ncaa/finances/>). The table below, which appeared in a USA Today analysis of NCAA finances, shows the sources of O.U. Athletics revenue (<https://sports.usatoday.com/ncaa/finances/>). The majority of this revenue derives from student fees or “school funds”:



SCHOOL FINANCES							REVENUES ▾
YEAR	TICKET SALES	CONTRIBUTIONS	RIGHTS / LICENSING	STUDENT FEES	SCHOOL FUNDS	OTHER	TOTAL REVENUES
2018	\$1,049,472	\$4,870,290	\$5,039,664	\$0	\$19,832,417	\$2,518,194	\$33,310,037
2017	\$1,181,793	\$2,084,887	\$5,902,656	\$17,535,617	\$2,554,390	\$2,975,345	\$32,234,688
2016	\$1,316,355	\$3,331,622	\$4,413,713	\$17,759,180	\$2,504,303	\$2,557,559	\$31,882,732
2015	\$1,220,176	\$3,048,381	\$3,995,205	\$16,354,881	\$2,455,201	\$1,635,569	\$28,709,413
2014	\$1,452,846	\$2,337,759	\$3,591,973	\$16,046,712	\$2,407,059	\$1,883,651	\$27,720,000
2013	\$1,215,671	\$2,204,293	\$4,146,155	\$15,724,403	\$2,336,950	\$1,637,589	\$27,265,061
2012	\$1,148,918	\$2,007,290	\$3,502,453	\$18,322,976	\$2,348,405	\$1,341,478	\$28,671,520
2011	\$848,470	\$726,544	\$2,497,477	\$17,285,633	\$2,291,127	\$1,821,045	\$25,470,296
2010	\$898,462	\$630,322	\$2,097,627	\$16,460,250	\$2,253,715	\$1,565,577	\$23,905,953
2009	\$740,958	\$596,760	\$1,613,591	\$0	\$15,055,450	\$2,085,471	\$20,092,230
2008	\$805,771	\$686,543	\$1,993,515	\$0	\$14,591,522	\$1,373,209	\$19,450,560
2007	\$718,501	\$726,989	\$2,418,735	\$12,115,037	\$2,115,796	\$1,975,815	\$20,070,873
2006	\$862,207	\$787,137	\$1,550,771	\$0	\$12,024,194	\$1,198,177	\$16,422,486
2005	\$583,730	\$673,989	\$1,477,395	\$10,199,558	\$513,920	\$1,009,304	\$14,457,896

Like the amounts channelled toward administration, the money devoted to athletics does not go directly toward the University's core mission of teaching and research. Significantly scaling back and capping the subsidy to Athletics would substantially reduce O.U.'s overall budget shortfall, an amount equivalent to the spending on our sports teams, and obviate any need to cut faculty of instruction. At the very least, there should be a reduction in the athletics subsidy proportional to the current decline in enrollment revenue. In the longer term, we might consider moving to an NCAA division that does not require the same level of funding. Firing faculty of instruction—a move that will significantly increase the teaching burden of tenured and tenure-track (T/TT) faculty, negatively affect the capacity of these faculty to carry out already substantial research

and service activities, radically reduce the number of courses O.U. can offer, and in some cases force the closing of entire academic programs—should be the University’s last resort and should only occur in the context of a formally declared financial emergency. Teaching and research are O.U.’s central, state-mandated mission. Reinforcing that mission needs to be our primary concern as we seek to address our current budget crisis and ensure financial viability into the future.

## What can Faculty Do?

This paper has shown that explanations for our current budget shortfall are more complicated than demographic shifts, salary expenditures, or the Ohio guarantee. Important contributing factors include O.U.’s pricing problem and the shift in resource allocation to administrative and athletic units. The good news is that unlike birthrates, declining state share of instruction, and tuition guarantees, these decisions are ones we have the power to make right here on our own campus. The bad news is that up to this point we have not made them well.

Going forward, financial decisions and financial decision-makers must be held accountable for the priority of the academic mission. There are several steps we as faculty and other concerned groups--e.g. students, distinguished professors, and emeriti--can take to achieve this accountability and effect change.

First, become familiar with O.U.’s budget situation on a continuing basis and press the administration and Board of Trustees (B.O.T.) for answers to the kinds of questions we have raised in this document. This paper provides a beginning point. But we need to remain engaged and vigilant, questioning claims made about our financial situation, especially when those claims serve as justifications for firing faculty and ending programs.

Second, engage in serious, informed, and ongoing correspondence with President Nellis and the B.O.T. Letters and emails from faculty across the University will show that the concerns we have are broadly shared. Please begin writing to President Nellis and the B.O.T. Send OU-AAUP ([ou.aaup@gmail.com](mailto:ou.aaup@gmail.com)) copies of those letters so that we can build a file demonstrating the strength and extent of faculty concern.

Finally, ask to meet with President Nellis and the BOT in person. Get on their calendars. Share your concerns, directly. Let us know how these interactions are going ([ou.aaup@gmail.com](mailto:ou.aaup@gmail.com)).

These are simple starting points for action. Other actions are possible and can emerge through discussion among ourselves and through the will to act in concert. As faculty, we have a responsibility to ensure O.U.’s core mission for the future. We can act on that responsibility by coming together in a shared sense of purpose to hold University leadership accountable and participate with them in the wise stewardship of our resources.